The Commonwealth of Massachusetts

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 05-35 February 28, 2006

Petition of Boston Gas Company d/b/a KeySpan Energy Delivery New England, pursuant to G.L. c. 164, § 94A, for approval of a Firm Transportation Agreement between Boston Gas Company d/b/a KeySpan Energy Delivery New England and Tennessee Gas Pipeline Company, to meet demand requirements of its firm customers.

APPEARANCES:

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D.T.E. 05-35

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I. INTRODUCTION

On April 29, 2005, Boston Gas Company d/b/a KeySpan Energy Delivery New England ("Boston Gas" or "Company"), pursuant to G.L. c. 164, § 94A, submitted for approval by the Department of Telecommunications and Energy ("Department") a firm transportation agreement ("Agreement") between Boston Gas and Tennessee Gas Pipeline Company ("Tennessee"). The Company's petition was docketed as D.T.E. 05-35.

On July 14, 2005, pursuant to notice duly issued, the Department conducted a public hearing to afford interested persons the opportunity to comment on the Company's proposal. The Attorney General of the Commonwealth ("Attorney General") intervened as of right, pursuant to G.L. c. 12, § 11E, and the Department granted motions for limited participant status to The Berkshire Gas Company and Tennessee.

On October 5, 2005, the Department held an evidentiary hearing. The Company presented the testimony of Elizabeth Danehy Arangio, director of gas supply planning for Boston Gas, and Theodore E. Poe, Jr., manager of energy planning for Boston Gas. The Company submitted a brief on October 26, 2005. The evidentiary record consists of 39 exhibits including the Company's pre-filed testimony and responses to information requests issued by the Department and the Attorney General.[1]

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[1] The Attorney General was represented at both the public and evidentiary hearing but did not file a brief in this proceeding.

II. DESCRIPTION OF THE AGREEMENT

Boston Gas states that the proposed Agreement satisfies a need for additional city-gate deliverability of gas to serve its customers that was identified in the fall 2004 update to the Company's 2001-2006 long range resource and requirements plan ("Supply Plan") (KeySpan Energy Delivery New England, D.T.E. 01-105 (2003); Petition at 2). Pursuant to an amended Agreement dated June 16, 2005, and filed with the Department on July 8, 2005, Tennessee will provide firm transportation service up to a maximum daily transportation quantity ("MDTQ") of 112,700 dekatherms per day ("Dth/d") for a primary term of 20 years, subject to the Company's right to decrease the MDTQ by up to (i) 25 percent effective eleven years and five months following the in-service date (ii) 50 percent effective thirteen years following the in-service date and (iii) 100 percent effective fifteen years following the in-service date (Exhs. TEP-4; KEDNE-1, at 2-4). The primary receipt points will be located in the producing regions near the Gulf of Mexico (Exhs. NGC-1, at 5;TEP-4). The primary delivery points will be various interconnections of the Company's system with the Tennessee pipeline as well as the interconnect between Tennessee and the Algonquin Gas Transmission ("Algonquin") system in Mendon, Massachusetts (id.). Service will commence on the later of November 1, 2007, or the project's in-service date (Exhs. NGC-1, at 5; KEDNE-1, at 2). Service will be provided at a fixed, negotiated rate for the term of the Agreement (Exhs. NGC-1, at 5; KEDNE-1, at 5).

III. POSITION OF THE COMPANY

The Company states that the Agreement is consistent with its fall 2004 update of Boston Gas' forecast of sendout requirements initially presented in the Supply Plan approved by the Department in 2003 (D.T.E. 01-105; Petition at 1-2). The Company also states that there were no other reasonably available resource alternatives within the time frame required by the Company to meet its capacity need (Exh. NGC-1, at 10; Tr. at 17; Company Brief at 2).

In evaluating whether the Company's resource portfolio encompassed adequate resources to meet customer requirements under design weather conditions, Boston Gas identified a city gate capacity shortfall within the Company's resource portfolio beginning in the 2005/06 heating season (Exhs. TEP-1, at 8; TEP-2, at 1; Company Brief at 6). The Company provided the Department with an analysis of peak-day and peak-season needs for the KeySpan Massachusetts service territory (Exhs. TEP-1, at 6; TEP-2). The updated forecast demonstrated that Boston Gas needs incremental peak-day deliverability totaling 9,000 MMBtu/day beginning in 2005/06, increasing to 121,000 MMBtu/day by 2008/09 (Exhs. NGC-1, at 9; TEP-1, at 8; TEP-2, at 3). The updated forecast also demonstrated that the Company needs incremental peak-season deliverability totaling 752,000 MMBtu beginning in 2005/06, and growing to 5,459,000 MMbtu in 2008/09 (Exhs. NGC-1, at 9; TEP-1, at 8; TEP-2, at 1). The Company concluded that there is a gap between the level of city gate deliverability available to provide gas supply to the system and the level of on-system inventories available to supply customers during the design season (Exhs. TEP-1, at 8; TEP-2, at 1).

The Company determined that its identified capacity was best met through Tennessee's ConneXion Project because there were no other reasonably available resource alternatives within the time frame required by the Company (Exh. NGC-1, at 10). Boston Gas also states that there were no other alternatives available for the volumes Boston Gas required to meet the need (Tr. at 17). The Company asserts that the proposed Agreement with Tennessee contributes to the Company's portfolio objective of maintaining a reliable portfolio of resources to meet customer sendout requirements (Exh. NGC-1, at 10; Company Brief at 7). Additionally, the cost of the Tennessee capacity as compared to other existing delivery routes was evaluated by Boston Gas and the arrangement with Tennessee was the lowest cost option (Exhs. NGC-1, at 10; NGC-5 (Confidential)).

IV. STANDARD OF REVIEW

In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for the acquisition of capacity under G.L. c. 164, § 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U. 94-174-A at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent with the public interest, an LDC must show that the acquisition (1) is consistent with the company's portfolio objectives, and (2) compares favorably to the range of alternative options reasonably available to the company at the time of the acquisition or contract renegotiation. Id.

In establishing that a resource is consistent with the company's portfolio objectives, the company may refer to portfolio objectives established in a recently approved forecast and requirements plan or in a recent review of supply contracts under G.L. c. 164, § 94A, or may describe its objectives in the filing accompanying the proposed resource. Id. In comparing the proposed resource acquisition to current market offerings, the Department examines relevant price and non-price attributes of each contract to ensure a contribution to the strength of the overall supply portfolio. Id. at 28. As part of the review of relevant price and non-price attributes, the Department considers whether the pricing terms are competitive with those for the broad range of capacity, storage and commodity options that were available to the LDC at the time of the acquisition, as well as with those opportunities that were available to other LDCs in the region. Id. In addition, the Department determines whether the acquisition satisfies the LDC's non-price objectives including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

V. ANALYSIS AND FINDINGS

With respect to Boston Gas' portfolio objectives, the Agreement with Tennessee contributes to meeting the Company's stated goal of developing a diversified and least-cost portfolio (Exh. TEP-1, at 4-8). For the reasons set out below, the Department finds that Boston Gas' Agreement with Tennessee is consistent with the portfolio objectives and the supply planning process established in the Company's most recent Supply Plan approved by the Department in 2003. D.T.E. 01-105. Boston Gas' analysis of capacity shows that it requires flexible resources as provided in the Agreement to ensure system reliability, diversity of supply, and ultimately, cost savings for customers (Exh. TEP-1, at 3, 8; Tr. at 18-23). The Agreement gives Boston Gas access to numerous gas supplies in the Texas and Louisiana areas (Exh. NGC-1, at 4-5; Tr. at 21). Key Span was initially awarded 100,000 Dth/d of capacity, which was subsequently increased to 112,700 Dth/d when more capacity became available (Exhs. NGC-1 at 4; TEP-4, at 1-2). Boston Gas' analysis shows that the Company needs this additional capacity and that addition of this capacity is consistent with the Company's portfolio objectives (Exhs. TEP-1, at 5-8; TEP-2).

The evidence further establishes that the Agreement with Tennessee is superior to the Company's reasonably available alternatives. The Company noted that pipeline gas supplies to serve customers in Massachusetts are produced in two principal geographic locations: (1) the Gulf of Mexico and (2) Canada (Exh. NGC-1, at 11). From these two production areas, there is a finite set of delivery routes to the Company's city gates (id.). The Company indicated that adequate incremental capacity was not available on alternate interstate pipeline routes (Exh. NGC-1, at 10-12). However, Boston Gas also computed the costs associated with potential alternate routes and determined that the Tennessee Agreement was the most economic (Exhs. NGC-1, at 11-12; NGC-5 (Confidential)). The Department finds that the Company properly evaluated other potential alternatives and rejected them for valid reasons. Hence, the Department finds the Tennessee Agreement is preferable to Boston Gas' other alternatives and offers cost savings and reliability to the Company and its customers.

The Department also finds that the proposed resource acquisition compares favorably in terms of both price and non-price characteristics to the alternative resource options available to the Company. First, the Agreement provides primary firm delivery of incremental capacity by accessing numerous gas supplies in the Gulf, which ensures greater diversity and reliability in the existing portfolio (Exh. NGC-1, at 16-17). At the negotiated rate, the Agreement with Tennessee is competitive with deliverability to the Company's city gate when compared to other resource alternatives (Exhs. NGC-1, at 11-14; NGC-5 (Confidential)). Tennessee will be installing additional compression along the mainline in New York and Massachusetts to provide additional service (Exh. NGC-1, at 4; Tr. at 13). The evidence indicates that this represents the least cost for the addition of incremental capacity (Exh. NGC-5 (Confidential)). Thus, the Department finds that the Agreement will provide a cost-effective approach to managing required system resources. Second, the Agreement provides primary firm delivery of incremental capacity to the Company thereby enhancing the reliability of the regional infrastructure. Third, although the Agreement is for a twenty-year term, the Company has the ability to reduce quantities in the eleventh, thirteenth and fifteenth year (Exhs. KEDNE-1, at 4; NGC-1, at 4-5; Tr. at 18-19). This flexibility guarantees long-term access to relatively low-cost Tennessee pipeline capacity, but provides the Company the ability to evaluate other options in the future. Finally, with one of the primary delivery points being Mendon, Massachusetts, the Company will have the ability to serve the Algonquin portion of its distribution system with incremental gulf coast supplies (Exh. NGC-1, at 17).

In conclusion, for the reasons stated above, the Department finds that Boston Gas' proposal to enter into a long-term contract for firm transportation with Tennessee to be in the public interest because the Agreement: (1) complies with the Company's portfolio goals;

(2) compares favorably to the range of alternatives reasonably available to the Company; (3) properly evaluates cost and non-cost attributes to ensure that its portfolio is strengthened; and (4) achieves flexibility of nominations, reliability and diversity of supply. Therefore, the Agreement with Tennessee is approved.

VI. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That the firm transportation agreement between Boston Gas Company and Tennessee Gas Pipeline Company for Tennessee to provide firm transportation service up to a maximum daily transportation quantity ("MDTQ") of 112,700 MMBtus/day for a primary term of twenty years subject to Boston Gas Company's right to decrease the MDTQ by up to (i) 25 percent effective eleven years and five months following the in-service date, (ii) 50 percent effective thirteen years following the in-service date and (iii) 100 percent effective fifteen years following the in-service date, filed on April 29, 2005, be and hereby is APPROVED.

By Order of the Department,

/s/

Judith F. Judson, Chairman

/s/

W. Robert Keating, Commissioner

/s/

Paul G. Afonso, Commissioner

/s/

Brian Paul Golden, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).